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COMPLETED

DEFENSE INDUSTRIAL BASE REVITALIZATION ACT

JUNE 9, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ST GERMAIN, from the Committee on Banking, Finance and Urban Affairs, submitted the following

SUPPLEMENTAL REPORT

[To accompany H.R. 5540 which, on February 10, 1982, was referred jointly to the Committee on Banking, Finance and Urban Affairs and the Committee on Education and Labor for a period ending not later than May 15, 1982]

SUPPLEMENTAL TO THE NEED FOR AND PURPOSE OF THE LEGISLATION

Subsequent to your Committee filing the report to accompany H.R. 5540, information came to our attention which relates directly to this legislation and which should be shared with the House. Since this information was not made available prior to the May 17th filing date, it is necessary to take this unusual step of filing a Supplemental Report.

On March 6, 1982, Deputy Secretary of Defense Frank Carlucci issued a memorandum to the Secretaries of the Army, Navy, and Air Force, the Chairman of the Joint Chiefs of Staff, and the leadership of the Defense Department outlining the severe deterioration of the defense industrial base. The memo cited conclusions of recent studies on the condition of the domestic industrial response capability as the basis for developing a policy to reverse trends which threaten our national security.

In his policy statement, the Deputy Secretary made the following points:

> Without the support of a responsive industrial base, both our weapons systems' capabilities and our flexibility to respond are impaired. The industrial base is an integral part of our national security posture; a strong base is, therefore, an important deterrent to conflict.
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> . . . The capability of the industrial base also determines, in large measure, our ability to acquire in peacetime programed quantities of defense items efficiently. Failure to improve industrial responsiveness will not simply maintain the status quo—it will result in further deterioration of industrial

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capability and, ultimately, higher defense costs, longer lead times, and diminished defense readiness.

. . . We must weave industrial base considerations into the acquisition process, revitalize industrial preparedness planning, and show industry, through both planning and actions, that industrial preparedness is an integral part of acquisition.

To help reverse the trend toward decay, the memo stated that plans for internal DOD actions will be forthcoming, but Deputy Secretary Carlucci also said:

> We must also work with other agencies, the Congress and industry, to improve our ability to identify and resolve resource and capacity bottlenecks and to enhance our mobilization capability. We must improve internal DoD policies that inhibit industrial preparedness. We must work with Congress to provide a realistic statutory basis for our action.

Your Committee feels that H.R. 5540, the Defense Industrial Base Revitalization Act, gives the Department of Defense exactly that statutory authority with the flexibility and funding to implement this policy successfully.

At the conclusion of his statement, Deputy Secretary Carlucci said:

> I want to emphasize, in the strongest possible terms, that I view revitalizing the capability of the defense industrial base as one of the Department of Defense's principal initiatives, which fits into the Administration's Economic Recovery Program.

Your Committee agrees that the revitalizing of the defense industrial base should be viewed as a principal concern of the Defense Department since a strong national security posture acts to deter armed conflict. We also concur that this revitalization effort will be consistent with the thrust of the Economic Recovery Program since there will be a ripple effect throughout the domestic economy provided by the stimulus this legislation will provide to thousands of small businesses across the nation and by its job-creating impact.

To those who would argue that the Administration's economic program will resolve the industrial base problems without the need for additional stimulants, your Committee would like to refer to an additional Defense Department communication dated March 22, 1982, from Secretary Weinberger to OMB Director Stockman:

> It is clearly recognized that the Administration's initiatives for economic recovery will eventually foster conditions under which revitalization of the industrial sectors will occur. This will take several years and may not provide sufficient incentives for expansion of the industries which are subject to predatory pricing from unstable foreign sources and are critical to the production of national security systems. Our need for reducing our dependence on foreign industrial capabilities is urgent and will not allow us to wait.
>
> Through Title III of the Defense Production Act, the Government can provide incentives for increasing our domestic capabalities by encouraging private sector investment.

> I am concerned with the impasse we are experiencing in developing an acceptable funding mechanism for this critical industrial preparedness authority. Therefore, I propose funding Title III programs from the DoD budget.

Your Committee applauds that statement and the perception that uncontrollable circumstances prevail in some industries which could adversely affect our defense programs. In his letter, Secretary Weinberger said:

> . . . However, we are concerned with assured availability for critical industrial materials obtained from unstable foreign sources, particularly under national emergency conditions. Supply disruption of strategic commodities can be accommodated during peacetime; however, we cannot tolerate supply denials during surge or mobilization. To mitigate impact on defense program schedules and weapon system deployment under unacceptable conditions, we may need to exercise Defense Production Act (DPA), Title III, authorizies in advance of potential foreign supply cutoffs. We view our growing foreign dependency on strategic resources with increasing concern; although they can be commercially cost effective in the short term, we must have the option for improving industrial preparedness when extraordinary circumstances prevail. . . .

We agree that it is vital to prepare in advance for such exigencies and, where possible, to reduce the number of vulnerable points in our economy, whether civilian or defense.

Also, the Secretary makes a sound proposal that the funds authorized for the Title III authorities come from the DoD budget. Your Committee supports this and would encourage the relevant Committees to accept this proposal when they consider appropriating the funds authorized in this legislation.

Your Committee feels that the statements about the need for a revitalized defense industrial base and the use of the Defense Production Act authorities to achieve that objective expressed by the Secretary of Defense and the Deputy Secretary of Defense illustrate the need for the House to act favorably on H.R. 5540.

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